

Chairman's Statement



Li Anjian

(1) Operations of the Company during the reporting period

1. Principal operations of the Company

The principal activities of the Company used to be consumer electronics and communication and information products. After assets and business reorganisation, the Company has disposed all consumer electronics business and assets to Panda Electronics Group Limited ("PEGL") from December, 2000. The strategic change in principal activities from consumer electronics to communication and information industry and from traditional industry to new economy was realised. Existing principal activities include mobile telecommunications, satellite communication, electromechanical and information products. The Company has a leading position in the industry in the PRC and strong technological advantages and competitiveness as well as a bright development future.

2. Problems and difficulties encountered in operation and proposed solutions

The Company achieved outstanding results and a significant growth in business in 2000. However, the Company has faced numerous difficulties and challenges in its development. Firstly, price war of colour TV and vicious competition have made principal operations facing hard external environment; secondly, the Company faced competition pressure from foreign giants in international competition. Scientific development and economic strength need to be further enhanced; thirdly, the operation mechanism and management level of the Company have not yet met the requirements of international competition. Accordingly, the Company has adopted the following measures:



- (1) Assets and business reorganisation. Under the strong support of PEGL, consumer electronics business and assets including TV were disposed and quality assets including electromechanical products were injected in. It resulted in the elimination of the operating risk of TV business. Low effective assets of numerous consumer electronics were realised. The strategic change in product and industry mixes was accelerated. The financial and operation situations of the Company improved significantly. Gearing ratio was lowered and profitability was enhanced. All these have laid a solid foundation for the rapid growth of future results and the realisation of long-term continuing development of the Company.
- (2) Adjustment of product and industry mixes. The Company focused on research and development and speeded up the launch of new products and developed new high technology. From April, 2000, Panda mobile phones have achieved a rapid development and became a new economic growth point of the Company. Yearly sales reached 400,000 and it ranked top three in the PRC-made mobile phones. Research

and development of satellite communication of the Company made a breakthrough and entered a new stage. Electromechanical product industry of the Company was further enhanced through reorganisation, bringing a good development prospect.

- (3) Further strengthening of international co-operation and development of Sino-foreign investment. The Company adopted the strategy of making alliance with international companies and strengthened the strategic co-operation with foreign giants like Ericsson. Targeting international market, the international positioning of joint ventures was enhanced. The Company accelerated the development of the existing joint ventures and investment returns. Moreover, in respect of the development of auxiliary mobile telecommunications and new high technology, the Company established new joint ventures including Intenna (Nanjing) Co., Ltd. and 恩貝爾電池（南京）有限公司 and promoted their development.
- (4) Deepening internal reform and improvement of operation and management. To meet the requirements of modern enterprise system, the Company strengthened administration and changed its operation mechanism. It also underwent reform of property right and strengthened finance orientated management. It also made efforts to improve operation and upgrade modern management level.

3. OPERATION OF THE PRINCIPAL SINO-FOREIGN JOINT VENTURES

- (1) Nanjing Ericsson Panda Communication Co., Ltd. (ENC)

ENC is a joint stock company owned as to 43% by the Company, 41% by Telefonaktiebolaget L.M. Ericsson, 10% by Ericsson (China) Company Limited, 3% by Hong Kong Yung Shing Enterprise Company Limited and 3% by Jiangsu Posts and Telecommunications Administration Bureau. Having seized the opportunity of rapid development of domestic mobile telecommunications market in 2000, ENC speeded up research and development, technology upgrade and introduction of new products. It also encouraged domestic production and strengthened market development, and hence attained outstanding operating results. The Company manufactured 1,970,000 distanced control interchangeable machines, 53,800 loading amount of GSM primary stations (approximately 430,000 channels), 994 mobile interchangeable points (MSC, BSC) during the year. Sales revenue reached RMB9.873 billion, up 57.2%, including export transmittance of US\$134 million and net profits after taxation of RMB456 million, up 25.3%. Thereafter, ENC becomes one of the important global supply centres of Ericsson and the main source of revenue from investment. It has maintained a strong development. ENC has currently become the largest supplier of GSM equipment in the PRC.

(2) Nanjing Ericsson Panda Mobile Terminals Co., Ltd. (EPC)

EPC is a joint stock company owned as to 35% by the Company, 40% by Telefonaktiebolaget L.M. Ericsson and 25% by Ericsson (China) Company Ltd.. Having grasped the opportunity of rapid development of mobile phone market in 2000, EPC launched new products and speeded up construction and production. It also reduced cost and increased competitiveness and strengthened export market, bringing a satisfactory operating result. Yearly production of mobile phone reached 1,640,000. Sales revenue amounted to RMB2.315 billion. Net profit reached RMB58.76 million, of which exports amounted to 709,000 and export transmittance amounted to US\$180 million. EPC has become one of the global supply centres of Ericsson and another important source of revenue from investment. It has maintained a strong development.

(2) FINANCIAL STATUS OF THE COMPANY

The Company posted a good financial status. Changes in major financial indices are as follows:

(3) CORPORATE INVESTMENT

The Company had not raised capital during the reporting period. The Company used the capital raised in the issue of H shares and A shares in 1996 for the investment projects as promised in the prospectus. There was no proceed investment project in 2000. Other non-proceed investments are as follows:

1. Investment in Jiangsu Software Industrial Co., Ltd., which was set up in December, 2000. The registered capital is RMB198 million, in which the Company holds 35% interests. The Company invested RMB69.3 million in it in 2000. It is mainly engaged in the development, production, sale and technical services of integrated computer network system and electronic products, computers and software, integrated circuit and telecommunication equipment.
2. Investment in Intenna (Nanjing) Co., Ltd.. Its registered capital is RMB10 million, in which the Company holds 35% interests. Pursuant to an agreement, the Company shall make a total investment of RMB3.5 million. The Company invested RMB700,000 in 2000. That company is mainly engaged in the research, development, production and sale of advanced antenna system.

(4) Business Development Plan in 2001

2001 is the first year in the new century and is also an important year for the development of the Company. Domestically, the State continues to adopt positive financial policies to expand internal demand and to speed up western China development so as to achieve economic growth. Particularly, telecommunications business has grown rapidly. China Telecom, China Mobile and China Unicom have maintained fast development. It will bring a good market environment to the development of the Company and its joint ventures. Internationally, economic globalisation and the economic recovery in Asia-Pacific region provided the Company with numerous opportunities to further strengthen international co-operation and expansion in exports. However, the Company will face many new challenges brought by international competition. The operational strategies of the Company are "two innovations" (system and technology innovations) and "three adjustments" (adjustments of product, industry and property mixes). The Company aims at a new significant growth in operating results in 2001. The Company will grasp opportunities and accomplish tasks as follows:

1. Acceleration of adjustment of product mix and development of new principal activities. After colour TV business which accounted for 80% of turnover was disposed, new principal activities in mobile telecommunications, satellite communication, electromechanical and information products have to grow significantly and achieve good results. The competitive advantages will be enhanced so as to ensure its leading position in the industry in the PRC.
2. Strengthening research and development and speeding up technology innovation. The Company will enhance its independent development and technology innovation capacity. It will start joint development and international development of industrial research. It will focus on the strengthening of the research and development of the third-generation mobile telecommunications products and the new-generation satellite communication technology. It will further increase its own intellectual property right and enhance its core competitiveness. It will launch new technology and products. Particularly, the Company will speed up the launch of new generation mobile telecommunications products including GPRS and CDMA and new generation satellite communication products so as to meet the demand for the rapid development of domestic and overseas telecommunication operation industry and national defence communication.

3. Strengthening international co-operation and enhancement of development of Sino-foreign joint ventures. The Company will grasp the opportunities of economic globalisation and China's entry into WTO to strengthen strategic co-operation with international companies. ENC will further develop GSM and GPRS business and increase its market share and export. CDMA business will also be developed rapidly so as to be a new economic growth point in order to ensure a continual fast growth of its operating result. EPC will further develop domestic and overseas markets. It will also step up the development and production of GPRS and CDMA mobile phones and increase its market share. It aims at a significant increase in production volume of mobile phones and a great operating result. Nanjing Sharp Electronics Co. Ltd. will develop new LCD business and make efforts to improve its operating result and make good efficiency. Existing joint ventures will be further developed while foreign companies will be introduced to set up new joint ventures in respect of auxiliary mobile telecommunications and the development of new high technology so as to develop a new economic growth point. Moreover, the Company will step up the re-allocation of production of Ericsson products and the development of distanced control interchangeable machines. Through strengthening of international co-operation and the development of Sino-foreign joint ventures, the production technology and operating level of the Company will be compatible with that of the world rapidly. Investment return will continue to have a significant growth.
4. Enhancement of corporate administration and further deepening of internal reform. The Company will establish a comprehensive administrative structure and to increase its management standard. It will also accelerate the reform of internal property right system. Operator and core shareholding will be promoted and option system will be on trial. It further strengthen financial management. The Company will make efforts to reduce costs and encourage staff's incentive and creativity.
5. Strengthening of capital operation, integrity and development capacity. The Company will capitalise on the financing function in capital market to raise funds for development and add new technology investment projects. Moreover, the Company will enlarge its scale of operation and enhance its integrity and continuing development capacity so as to achieve a significant development.

Li Anjian

Chairman

Nanjing, China

15th March, 2001